



Recognising excellence: the case for giving well-run organisations unrestricted funding

A research report based on the first three years of the STARS Impact Awards

February 2010

Foreword

We begin the second decade of the twenty-first century facing some stark realities: the unlikelihood that the Millennium Development Goals will be achieved; the relentless spread of HIV/AIDS; the increased impact of climate change on poverty; a growing unease about the relationship between the global North and South and the measures we have taken so far to tackle inequality around the world.

It is a time to develop new ideas and consider innovative approaches that grapple with these realities and explore different ways of working.

The STARS Foundation exists to improve the lives of disadvantaged children and focuses on the countries where under-five mortality is highest. STARS believes that effective local organisations are best placed to respond to the needs of their communities and the children in their care. All too often however, these organisations are constrained by a rigid approach to funding which can limit their effectiveness.

The STARS Foundation's approach is unique in combining three core elements in its grant-giving programme, the STARS Impact Awards: unrestricted funding to carefully vetted local organisations; additional consultancy support to help recipients maximise the use of this funding; and feedback to all applicants to help spread effective practices.

The STARS Foundation and New Philanthropy Capital have collaborated to produce this report making the case for unrestricted funding, using data from Impact Award applicants. In it we argue that awarding unrestricted funding to well-run organisations helps them become more effective. Our hope is that by sharing what we have learned over the last three years, we will encourage other organisations to embrace a similar approach.

The aim of this report is to start a discussion through which we can explore different approaches and give a greater voice to those fighting disadvantage on the front line. It is in this spirit that it is offered as an invitation to further dialogue.

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Executive summary

The STARS Foundation works to improve the lives of disadvantaged children across the world. Founded by the Dabbagh Group and based in London, it runs an awards scheme that provides unrestricted grants of US\$100,000 and consultancy support to organisations that achieve excellence in the provision of health, education and protection services for children. It also aims to encourage the replication of effective approaches and practices among both front-line NGOs and funders.

A central part of STARS' funding approach is letting NGOs themselves decide how best to use the funding they receive to achieve their goals. This report explores the ways in which unrestricted funding can help NGOs achieve more, but also why many funders feel they need to place restrictions on grants. It uses previously unreleased information from the first three years of the STARS Impact Awards to show the challenges faced by NGOs and the importance of unrestricted funding. This report also looks at the difficulties that funders face when giving unrestricted funding, and what STARS has done to address these.

The STARS Foundation hopes that setting out the lessons from its grant-making will encourage others to share data and experiences and consider how they might loosen funding restrictions, for the benefit of both NGOs and their beneficiaries.

There are compelling reasons to give unrestricted funding

The arguments in favour of unrestricted funding are strong. Firstly, NGOs often have a better understanding of their context and of local needs than funders, so giving them freedom to allocate funds is likely to improve outputs and outcomes. Secondly, unrestricted funding makes NGOs more flexible and allows them to respond effectively to external changes or new needs. Thirdly, unrestricted funding can be used to pay for vital core costs, such as management salaries, rents, and furniture, for which restricted funding is rarely made available.

Despite these benefits, STARS is one of few grant-makers to offer only unrestricted funding and over half of the applicants to the STARS Impact Awards have no unrestricted income.

There are four main reasons given for restricting funding. The first is misalignment between grantees' and funders' missions. Secondly, many funders find it more straightforward to gauge the impact of restricted funding. Thirdly, restrictions provide a way of directly influencing how grantees work. Finally, funders may find it easier to assess, and by implication trust, individual project or programme plans than organisations.

A lack of unrestricted income is hampering the work of NGOs

STARS' data shows that a lack of unrestricted funding causes real problems for NGOs. These include problems raising funds, covering central costs and networking with other organisations. Since their budgets are restricted by funders, NGOs are unable to undertake much work that they consider important. Unrestricted funding enables them to do what they know is most needed—continue or extend their direct services, invest in organisational infrastructure, engage in partnership and advocacy, or strengthen monitoring and evaluation.

The STARS Foundation has developed a strong approach to providing unrestricted funding

STARS' approach provides a way to overcome the challenges of unrestricted funding. Firstly, the foundation applies strict eligibility and spending criteria which ensure that applicants' aims are aligned with its own and spending is charitable. Secondly, a detailed and in-depth application and selection process allows it to make an informed judgement on organisations, not just on programmes or projects. Thirdly, responsiveness and openness from STARS helps it to build a relationship of trust with applicants. Fourthly, STARS works together with its Award recipients to monitor and evaluate their work.

Unrestricted funding has advantages for NGOs, but that does not mean that all funding should be unrestricted. Rather, it is important that a mixture of funding is available. STARS' experience and that of other organisations strongly suggests, however, that there is currently too little unrestricted funding available.

Introduction

The STARS Foundation works to improve the lives of disadvantaged children around the world. Firstly, it does this by supporting organisations that achieve excellence in the provision of health, education and protection services for children. Secondly, it encourages the replication of effective approaches and practices among both front-line NGOs and funders. As part of these efforts, this is the first in a series of occasional reports to share the lessons from STARS' work with other funders, past and prospective applicants, and others who are interested in the challenges facing NGOs in developing countries.

STARS is committed to improving its own funding practices and to encouraging other funders to do the same. A central part of STARS' funding approach is letting NGOs themselves decide how best to use the funding they receive to achieve their goals. By taking this approach itself, and by making the case for it to others in this report, STARS hopes to increase the usefulness and effectiveness of funds in the hands of recipient organisations.

This report explores the ways in which unrestricted funding can help NGOs achieve more, but also why many funders feel they need to place restrictions on grants. While the logical arguments in favour of unrestricted funding are strong, there has been limited evidence, particularly from developing countries, on effective ways of providing such funding, or on the consequences of restrictions. The report uses previously unreleased information from the first three years of the STARS Impact Awards to show the challenges faced by NGOs and the importance of unrestricted funding. In doing so, it draws together findings from STARS' applicants and from UK and US literature on grant-making. It also discusses how STARS' own approach helps it deal with some of the issues involved in providing such funding effectively.

The STARS Foundation will continue to investigate the challenges faced by NGOs and the best ways to tackle these. It invites donors to comment on its findings and its approach, and contribute to future research. It hopes that setting out the lessons from its grant-making will encourage others to share data and experiences and consider how they might loosen funding restrictions, for the benefit of both NGOs and their beneficiaries.

Background

In 2006, STARS launched its annual Impact Awards. Each year, the foundation gives unrestricted grants of US\$100,000 each to organisations in developing countries working in the areas of health, education and protection to improve the lives of disadvantaged children. The first Awards were made in 2007 to three NGOs in Africa and repeated in 2008. In 2009, the scheme was expanded by a further three Awards, given to organisations from South Asia, in addition to the three Awards offered in Africa. In 2010, STARS expanded its application and assessment process into a further 24 countries in the Middle East, East Asia and Pacific regions, while still providing a total of six \$100,000 Awards annually.

The 2009 Impact Awards saw close to 500 applications. Recipients are selected against a range of criteria which reflect the hallmarks of effective practice and require them to demonstrate a positive impact on the lives of children. STARS has worked closely with PricewaterhouseCoopers LLP to create a rigorous two-stage application process to select strong organisations and reduce the administrative burden on unsuccessful applicants.

From the scheme's inception, STARS has provided tailored consultancy support alongside the Impact Awards, to help build the capacity of Award recipients. It has also sought to broaden the impact of its work beyond the Award recipients, for instance by providing feedback to unsuccessful applicants on their applications to help them improve both the ways in which they work and their presentation skills. A new initiative for 2009 has been the introduction of the smaller 'Rising Star' Award, made at the discretion of the STARS Board of Trustees, to recognise the work of a young organisation whose application demonstrates potential.

Method, scope and content

This report outlines the theoretical and practical case for unrestricted funding and explores the reasons funders have for applying restrictions. Its focus is on grant-making trusts and foundations and individual philanthropists, rather than bilateral and multilateral aid flows. It draws on an existing debate within the sector, but adds to this qualitative and quantitative data collected from STARS applicants. It also explores the process that STARS has put in place to give unrestricted funding and highlights lessons for other funders.

The 2009 STARS applicants are all based in African and South Asian countries in the top 100 of the UNICEF Under-Five-Mortality Rank listing from its State of the World's Children Report 2009.¹ They all do work that directly or indirectly benefits disadvantaged children. However, since the challenges they face are similar to those of organisations operating in other countries and sectors, funders whose main interests lie elsewhere should still find this report relevant to them.

Little data is available about the levels of unrestricted funding available to NGOs in developing countries and the impact this has. Though this report is a useful addition to what is known, it is important to acknowledge the limitations of the data underlying it. The report largely focuses on data from applicants to the 2009 Impact Awards, as STARS' application process and target countries have been updated and refined each year. This has restricted the sample size and limited the ability to make comparisons across applicant cohorts. Also, it should be recognised that Impact Awards applicants are a self-selecting sample, and even 500 applicants represent only a tiny fraction of the universe of NGOs in developing countries. However, since reliable data on funding patterns within countries, sectors, or even individual organisations is so scarce, this addition has some value, particularly since it provides concrete examples of the experiences and challenges of NGOs.

Structure

This report is divided into five sections:

- [Section 1](#) – The case for unrestricted funding, sets out the arguments in favour of letting recipients decide how to spend grants and examines the reasons for the popularity of restricted funding
- [Section 2](#) – The availability of unrestricted funding, looks at the current levels of unrestricted funding going to NGOs working in developing countries and at current practices among funders
- [Section 3](#) – The need for unrestricted funding, draws on feedback from STARS' applicants on the challenges they face due to a lack of unrestricted funding and on their proposed plans for using the funding provided by the Impact Awards
- [Section 4](#) – STARS' approach to unrestricted funding, outlines the application and selection process for the Impact Awards and highlights lessons for other funders
- [Section 5](#) – Next steps, indicates STARS plans going forward, invites donors and funders to comment and contribute, and suggests potential areas for further research
- [Appendix 1](#) – The STARS Impact Awards applicant pool
- [Appendix 2](#) – Challenges faced by applicants

Defining unrestricted funding

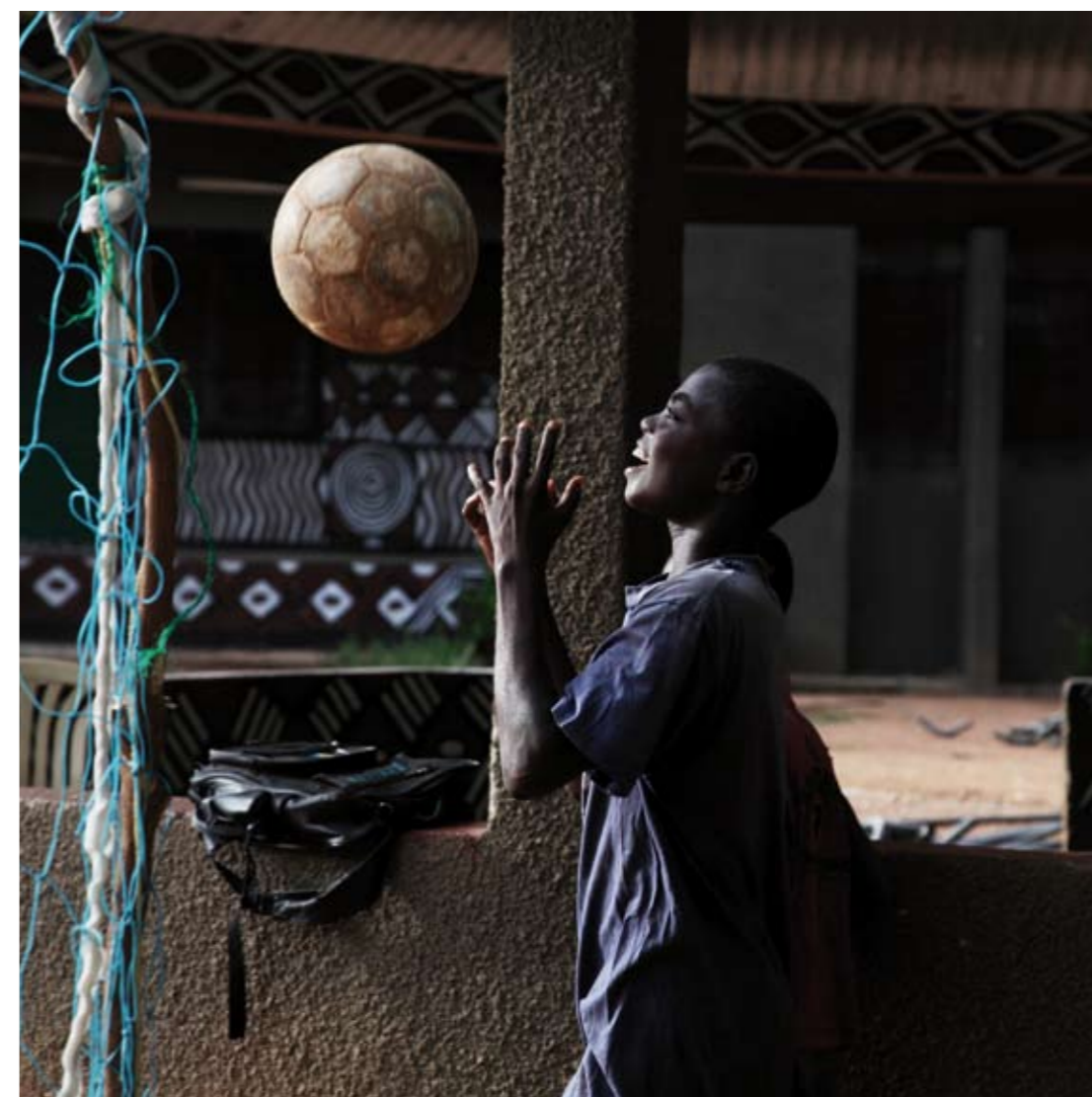
Unrestricted funding is money given by a funder without any restrictions on how the recipient may spend it. Restricted funding, by contrast, places limits on the grant, typically at one of the following four levels:²

- Inputs (e.g. the recipient will use the funding to purchase textbooks)
- Outputs (e.g. the recipient will use the funding to run 100 classes)
- Outcomes (e.g. the recipient will use the funding to improve the literacy of 100 children)
- Themes or beneficiaries (e.g. the recipient will use the funding to educate homeless children)

Restrictions can vary in severity not only in terms of level but also in terms of the amount of detail provided. The STARS Foundation's charitable purpose requires it to impose broad restrictions on its Impact Awards in terms of how the funding is spent; one example is that it should benefit children. This could be described as 'minimally restricted' funding, but in this report it will be referred to as unrestricted funding.

The flexibility of the restrictions can also vary, as many funders relax or change them in response to information from grantees about changing circumstances or needs. In addition, grants are often partly restricted and partly unrestricted. When funders and grantees agree that the latter should achieve Full Cost Recovery, for instance, an unrestricted portion may be included in the grant to meet core costs.

Right:
Play time at
Next Generation
home for Street
Children, Afrikids
Ghana, 2009
Award Recipient





Case study: Resources Aimed at the Prevention of Child Abuse and Neglect (RAPCAN)

RAPCAN works to prevent child abuse and neglect and promotes children's rights at a local, provincial and national level in South Africa and in the southern African region. In 2007, RAPCAN received the first STARS Impact Award in the Protection category.

Two decades after it was founded in 1989, the organisation's prime concern is to ensure its continued existence and the sustainability of its service delivery to the community. Securing funds to build reserves and invest in infrastructure is notoriously difficult, leaving organisations like RAPCAN struggling despite successfully raising funds for projects and delivering strong results. Indeed, with over 50 staff and activities in four countries, RAPCAN has reached the stage at which reserves are critical to ensuring that it can provide services when fundraising is delayed or in transition.

The STARS Impact Award has helped the organisation to start building a reserve fund and allowed it to strengthen its IT infrastructure. The tailored consultancy support arranged by STARS has enabled the organisation to strengthen its internal policies and procedures, as well as explore new methods of engaging donors. The recognition of RAPCAN's work expressed by the Impact Award has also helped attract additional donors in a short space of time.

"The funds received as part of the STARS Impact Award are central to offering RAPCAN a core of financial security, assuring its continued existence and service to the community for a further 20 years."
Cheryl Frank, RAPCAN

1. The case for unrestricted funding

Most NGOs would welcome more funding, but the amount of money available is not the only thing that matters. Funding practices — how money is given — are also important. These include the ways in which funders select grantees, the sizes and durations of grants, and the reporting requirements involved. Widespread funding practices not only affect individual NGOs, but can help shape entire sectors.

Restrictions on grants are widely used by donors and funders. There are a number of reasons for this, but most flow from their practical and legal concerns, for instance over mission alignment, or the need for a clear set of outcomes. Arguments in favour of unrestricted funding, by contrast, often focus on the benefits to the NGO. These include giving greater freedom to set the agenda, greater flexibility to respond to changes in circumstances and greater opportunity to strengthen the organisation.

Both sides have valid arguments. A mix of unrestricted and restricted funding can realise the benefits from both. Funders should therefore look at both sides of the argument to make an informed decision on how to fund.

A number of organisations campaign to bring about more unrestricted funding based on the logical case presented in this section and research into the experiences of grantees. The Institute for Philanthropy recently published *Supportive to the Core: Why unrestricted funding matters*.³ New Philanthropy Capital, a charity think tank and consultancy, has promoted unrestricted funding since its 2005 report *Funding success*,⁴ and in 2009 published *Granting success*,⁵ which provided lessons from UK funders and charities on grant-making practices and their consequences. In the US, a key proponent is Grantmakers for Effective Organisations (GEO), a non-profit coalition of 350 grant-making organisations committed to building strong and effective grantee organisations. Several GEO reports have highlighted the importance of general operating support, which the organisation defines as “[unrestricted] grants in support of a non-profit organisation’s mission rather than specific projects or programmes”.⁶

Reasons for giving unrestricted funding

The main reasons for unrestricted funding focus on the freedom and control that it gives to NGOs, who can allocate money more effectively than funders. Unrestricted funding:

- puts NGOs in control;
- lets them be flexible and responsive; and
- provides opportunities to strengthen organisations.

Putting NGOs in control

The main argument for unrestricted funding rests on the premise that autonomy for grantees improves their effectiveness. The idea is that it is better for NGOs to decide how and where they spend their money than for external (and often foreign) donors and funders to set priorities for grantees and their sectors. As NGOs know more about what works and about the needs of their beneficiaries, they should be able to make better decisions, which means better outcomes. Unrestricted funding for NGOs can be seen as a parallel to the trend in government aid funding towards developing country ownership.

Restricted funding means that NGOs are dependent on donors not only to fund their work in general, but to launch and continue individual projects. Donors are often biased in favour of direct services with easily identifiable and immediate impacts. Work such as advocacy, lobbying, or networking consequently suffers.

Trends in grant-making which focus on a hot topic can also make it harder to find funding for other important work. To attract funding, NGOs adapt the language they use in applications, but also their activities, potentially diluting the impact of their work. Sometimes they feel forced to ‘chase funding’ by tendering for projects in areas of less need or outside their expertise.

“An overreliance on restricted programme support can create a situation in which organisations design programmes not to achieve the best results they can for the populations or the communities they serve, but to coincide with what they perceive as the desires or whims of their funders. They may be more attentive to what will get funded than to what will work.”⁷

By contrast, unrestricted funding makes it possible for NGOs to finance prioritised but unpopular activities. As STARS applicants put it:

“There are several aspects of work that are either experimental or do not fit the first priorities of funding agencies which need greater support through unrestricted funds.”

“Funds got by NGOs from donor partners are mono-directional which solves the intention of the giver and not the felt needs of the community for whom funds are meant.”

Allowing grantees to be flexible and responsive

Unrestricted funding also gives organisations greater flexibility and the ability to respond to changes in context and needs. If new needs or effective interventions emerge, grantees can act immediately to adapt project or programme design, without the need for agreement from funding agencies. Also, they can close down projects that are not delivering results to transfer funding to those that are.

As *Supportive to the Core* puts it: “Donors often wish to fund innovation and new paradigms, and see project funding as a way to do that. However, core support can also spur innovation, giving organisations the flexibility and confidence to be creative, take risks and try out new approaches.”⁸

Applicants to the Impact Awards agree: “Unrestricted funding gives us more flexibility to meet unanticipated needs.”

Strengthening organisations

In the words of business thinker Jim Collins: “Restricted giving misses a fundamental point: to make the greatest impact on society requires first and foremost a great organisation, not a single great programme.”⁹

Many NGOs struggle to cover their core (or central) costs, in part because some funders are unwilling to provide full cost recovery for projects. Unrestricted funding can therefore be crucial for maintaining but also for building organisational capacity and central functions. Without strong systems and management, NGOs are less able to plan effectively, co-ordinate services and report back with the level of detail and accuracy required by donors and funders. Without reserves, financial oversight and fundraisers, it is a much greater challenge for them to ensure financial sustainability. Many of the advocates of unrestricted funding express concerns that organisations capable of doing great things are slowly ‘hollowed out’ by restricted funding.

Even large organisations find it difficult to generate income to invest in training, software, or salaries – an organisation with an income of \$20m per year told STARS that \$100,000 of unrestricted funding would be ‘gold dust’.

This argument for unrestricted funding does not only apply to grant-makers. New Philanthropy Capital’s 2008 report *Philanthropists without borders*, a study of the international giving of individuals based in the UK, suggested that such donors should consider the impact of how they give, and recommended that they support organisations, not projects.¹⁰

Some comments on the funding landscape from STARS’ applicants underline the importance of strengthening organisations:

“As an organisation, we have core costs that need to be supported but most donors are not willing to fund these. Admin costs and other overhead costs are crucial to the running of our projects but remain unsupported.”

“Many donors refuse to pay more than a certain percentage for operations (overheads, salaries, and so on) and yet these are the very resources that we require to function.”

Reasons for giving restricted funding

The arguments for restricting funding mainly focus on the constraints and concerns of funders. The most commonly cited reasons are:

- allowing funding when missions are not aligned;
- establishing a clear picture of impact and ownership;
- enabling funders to influence NGOs; and
- making up for a lack of knowledge and trust.

Allowing funding when missions are not aligned

One core reason cited by donors for restricting their funding is the lack of alignment between their mission and that of prospective grantees. Trusts or foundations are typically set up with specific charitable purposes, and are therefore obliged both legally and morally to focus their funding on particular areas, issues, or groups. Grants restricted to a specific programme, or by outcomes or beneficiaries, let such funders support organisations that have a broader mission.

New Philanthropy Capital's report *Granting success* found that: ["Where a charity's and a donor's mission completely overlap, unrestricted funding is preferable. Where the missions only partly overlap, then a donor might need to restrict funding to a beneficiary group or outcome or activity. Care should be taken not to restrict funding overly, i.e. by restricting the grant to an input or a budget line item."](#)¹¹

Unrestricted funding should be considered first, and if funders consider it necessary to use restrictions, these should be at the broadest level possible. Funders should not expect perfect alignment – a working group of the Independent Sector, the US leadership forum for charities, foundations and corporate giving programmes, produced guidelines for funding non-profit organisations which call on funders to provide general operating support when goals are 'substantially aligned'.¹² STARS itself uses strict eligibility criteria to ensure alignment between its mission and those of applicants to the Impact Awards.

Establishing a clear picture of impact and ownership

A second reason for restricting funding to a particular programme, project, or activity is that many funders think that it makes it easier to work out the direct impact of the grant. Funding a certain project will in turn lead to a specific and discrete set of outcomes. This is not just immediately satisfying, but may also be necessary to inform future strategic decisions or report to stakeholders (or both).

An unrestricted grant, by contrast, may be used to pay rent, hire an administrator, or purchase new IT equipment, in which cases working out the final influence on outputs or outcomes may be considerably more challenging. An extreme case is funding an organisation's reserves. This may ensure the organisation's future stability and help attract other funders, thereby contributing to all future outcomes achieved, but it may also be perceived as having no immediate discernible impact on its outcomes.

Not all grant-makers are deterred by the prospect of assessing the impact of unrestricted funding. Grantmakers for Effective Organisations has published a review of grant-makers' approaches to this task.¹³ As discussed in Section 4, STARS works closely with grantees to secure this assessment over several years following an Impact Award.

Enabling funders to influence organisations

The third case for restricted funding is that it allows donors and funders to directly influence what is happening on the ground. This is the flip side to the argument that NGOs are better placed to set the agenda. A grant-maker might claim to have a clearer sense of the bigger picture, to be unencumbered by local prejudice, and to have an objectivity and expertise that would be useful to grantees. A funder may legitimately believe that a number of organisations are collectively approaching a need in the wrong way, or failing to co-operate, and use funding restrictions as one way to remedy this. A funder may even feel concern over the internal priorities of a grantee, preferring for instance that it strengthens its IT system instead of over-extending itself in the delivery of direct services.

Making up for lack of knowledge and trust

A final reason for restricting funding is that it is easier to do so, since it requires less knowledge and appears to expose funders to less risk.

Many funders, particularly those based out of country, do not have a detailed understanding of individual NGOs. They find it easier to analyse, assess and compare individual projects than entire organisations. Holistic assessments require time, resources and expertise that most funders simply do not have – particularly when looking at complex organisations. Restricted funding is felt to be less risky, since it gives recipients no opportunity to redirect money to activities of which the funder might disapprove. Providers of unrestricted funding respond that restrictions do not really protect against risk. Funding a well-defined project will not counter reputation risk if the organisation that delivers it is discredited. Similarly, excellent financial planning on a project level will not help if a grantee runs out of money. The best way to guard against such risks is to look at organisations holistically before funding them.

A better mix

As can be seen, there are strong arguments both for and against unrestricted funding. It is not unreasonable to suggest that there is room for both sets of funding practices. In some cases grant-makers will be able to overcome the challenges and tap into the considerable benefits that unrestricted funding can deliver for their grantees and their beneficiaries. In other cases, these potential benefits will not outweigh the risk of mission mismatch or the desire to influence the way a grantee carries out its work.

A mix of unrestricted and restricted funding can deliver funders' objectives as well as benefits to grantees (particularly since strong grantees are necessary for the realisation of funder's objectives). Unrestricted funding does not have to comprise all of an NGO's income for the benefits to be realised. As one STARS applicant puts it:

["We also need some funding which we can use at our discretion for various unforeseen expenses or new requirements. It is therefore desirable that around 10% to 25% of the funding that we receive in any particular year is unrestricted. The unrestricted funds that we received this year are within that range and are therefore satisfactory."](#)

How to arrive at this mix is another question. Individual funders could give a mix of grants, but a mix in grantees' budgets could equally result from a situation where some funders give only restricted and others give only unrestricted funding. However, coordination between different funders to ensure that there is a spread of funding practices in particular geographies or sectors, or that individual organisations have some unrestricted funding, may pose challenges. As this section has suggested, a range of observers think that the balance is currently severely skewed in favour of restricted income. The next section looks at this in greater detail.

2. The availability of unrestricted funding

Despite the arguments in favour of at least some unrestricted funding, many organisations complain that they receive very little. Unfortunately, the availability of data on funding practices as well as on NGO income is often poor. This section will discuss the limited evidence which exists on this topic, but will also share further data collected by the STARS Foundation to improve the depth of knowledge and highlight the possibilities for research built into funding application, selection and monitoring processes.

The anecdotal picture

The anecdotal picture from NGOs in developing countries is clear: unrestricted funding is difficult to come by. Some STARS Impact Awards applicants are not even familiar with the concept. Others know what it is, and know that it could make a big difference to their organisations, but struggle to access it. In the words of one applicant,

“We have yet to come across any foundations or trusts willing to give larger sums of unrestricted funding.”

Data on the availability of unrestricted funding in developing countries is scarce. Survey-based research from the US and the UK gives some indication of the situation of organisations based in those countries. For instance, the report *Highlights of Foundation Giving Trends* (February 2009) from The Foundation Center in the US shows that general operating support, defined as funding to cover the day-to-day costs of running an organisation, accounts for around a fifth by value of domestic and international grants by US foundations.¹⁴

In the UK, the requirement to file accounts with the Charity Commission and the existence of GuideStar UK means that it might be possible, with much effort, to put together statistics on unrestricted and restricted funding without relying on surveys. In many developing countries, such a task would be significantly harder, as even establishing a list of organisations in existence might require extensive research.

Evidence from STARS' applicants

How can we go beyond the anecdotal evidence to establish with greater certainty if a lack of access to unrestricted funding is a problem for NGOs operating in developing countries? Data gathered by the STARS Foundation as part of its Awards programme provides a starting point.

Access to unrestricted funding

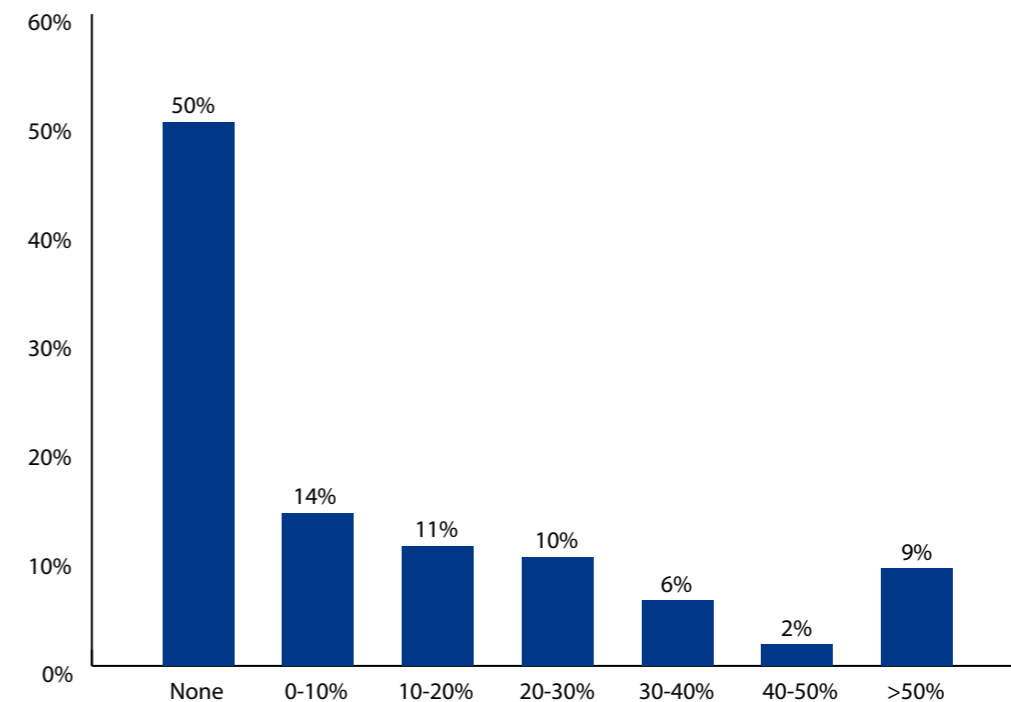
As part of giving and receiving feedback in the 2009 Awards process, STARS asked 253 organisations scored at Stage 1 and 106 organisations scored at Stage 2 what proportion of their funding was unrestricted.

The results were striking:

- Half of the 133 applicants who responded had no unrestricted funding at all
- Nearly two thirds of the organisations had less than 10% unrestricted funding
- Just under one organisation in ten had 50% or more unrestricted funding

The full distribution can be seen on the following page in Chart 1.

Chart 1: Unrestricted funding as % of total income (N=133)



This paints a picture of no or very little access to unrestricted funding for the majority of organisations. These are not typically young, small grassroots organisations but established ones, with significant external funding, but still only a small number have substantial access to unrestricted funding.

Access to unrestricted funding is not correlated with the age, income, or number of staff of organisations. Nor does geography play an obvious role: organisations from Africa and South Asia have similar average percentages of unrestricted funding.

It must be pointed out that the group of organisations asked to provide feedback and the actual respondents are not necessarily a representative sample of STARS' applicant pool or of the voluntary sectors in any of the countries applications came from. Nevertheless, the data provides some support for the view that there is a lack of unrestricted funding for African and South Asian NGOs. As importantly, it also shows that funders can make substantial efforts to expand their knowledge through their own grant-making processes.

The data cannot explain why many organisations fail to attract unrestricted income. A bias of grant-makers towards restricted funding is a common anecdotal explanation, but as unrestricted funding can come from many other sources (which will be explored next), a conclusive explanation would need to address these sources too.

3. The need for unrestricted funding

Sources of unrestricted funding

The STARS applicants who do have access to unrestricted funding say that they receive it from a wide range of sources – from individuals, from institutions and from their own activities. The full range of sources of unrestricted funding under these headings looks like this:

Individuals

- Local individual donors
- Individual donors abroad
- Funds raised from individuals through events and direct debits
- Local donations, friends' contributions, community contributions (i.e. box collections)
- Family foundations
- Legacies
- Donations in kind

Institutions

- Grant-making trusts and foundations
- Funding agency
- Corporate
- Other NGOs
- European national aid agency
- INGO
- Schools/colleges
- Church and community donations from overseas

'Internally' generated

- Interest earned on bank accounts
- Trading activities/sale of products (i.e. handcraft products made by beneficiaries)
- Membership fees
- Rent
- Local income generated through private clinic
- Consultancy services
- Fees from provision of training

In summary, there is little firm data on the availability of unrestricted funding for NGOs in developing countries, but anecdotal evidence suggests that like their peers in developed countries, most of them receive little or none. Since organisations' access to such funding has consequences for their effectiveness, funders may wish to gather their own data. In doing so, the STARS Foundation has found that a majority of Impact Awards applicants have limited or no unrestricted funding, although a small number of organisations do receive substantial amounts. Those applicants who do have access to unrestricted funding receive it from a wide range of sources.

The lack of unrestricted funding highlighted in Section 2 should be a problem for NGOs, for reasons that mirror the list of its advantages. Since, for instance, unrestricted funding gives grantees flexibility and the opportunity to finance unpopular but important work, its absence could lead to inflexibility and to reductions in such work. The STARS Foundation has observed substantial anecdotal support for this view from its contacts with hundreds of NGOs in Africa and South Asia during the first three years of the Impact Awards.

In addition to the quantitative data on unrestricted funding discussed in Section 2, STARS has gathered qualitative data from applicants on the challenges they and their sectors face and on how they propose to spend the \$100,000 Impact Award if they receive it. This data can help provide a better insight into the need these organisations have for unrestricted funding. It can also give some indication of where the lack of unrestricted funding ranks as a problem for NGOs.

Challenges for STARS applicants and their sectors

Separate to the main application form, STARS Impact Awards applicants were asked to list the main challenges facing their sectors. Their responses were categorised under the following headings, which are ordered from most to least frequently mentioned:

- Lack of funding
- Lack of capacity
- Legislation or government attitudes hostile to NGOs
- Challenges in the external operating environment
- Challenging funding practices
- Lack of sustainability of projects
- Lack of sector coordination or excessive competition
- Lack of capacity or funding for monitoring and evaluation
- Corruption

Issues around funding are clearly important concerns: more than two thirds of responses related to funding (i.e. matched one of the three categories Lack of funding, Challenging funding practices and Lack of sustainability of projects). See the following page for illustrative excerpts from this feedback.

Right:
Children dancing
at Kamatipura
Centre, Prerana
India, 2009 Award
Recipient



Funding-related challenges faced by applicants

Lack of funding

“The biggest problem we face is the lack of enough funds.”

Challenging funding practice

“Reduction in proposed budgets by donors, contributing to the collapse of some projects, and late release of funds by donors.”

“Core funding is critical and almost never available.”

“Scarcity of resources, in most cases due to having only one source of income or one major donor covering all general costs. . . To make matters worse, even these scarce resources are restricted by donors by the number of strings attached.”

Lack of sustainability of projects

“[A major challenge is] Sustainability of the organisations, as core funding is critical and almost not available; most projects end with the organisations.”

“In terms of our capacity, the sustainability of the projects is the biggest challenge, because whenever a project [becomes established], that causes funding to end, and then the project definitely moves backwards day by day.”

See Appendix 2 for illustrations of other categories of challenges described by applicants.

While funding in the broad sense is clearly a major concern, this data does not show that funding practices in particular, and more specifically restricted grants, are the top challenge faced by most of these organisations. However, unrestricted funding may be the solution to the challenges they say they face. One way to see if this is true is to look at what their funding applications say that they would do with \$100,000 of unrestricted funding.

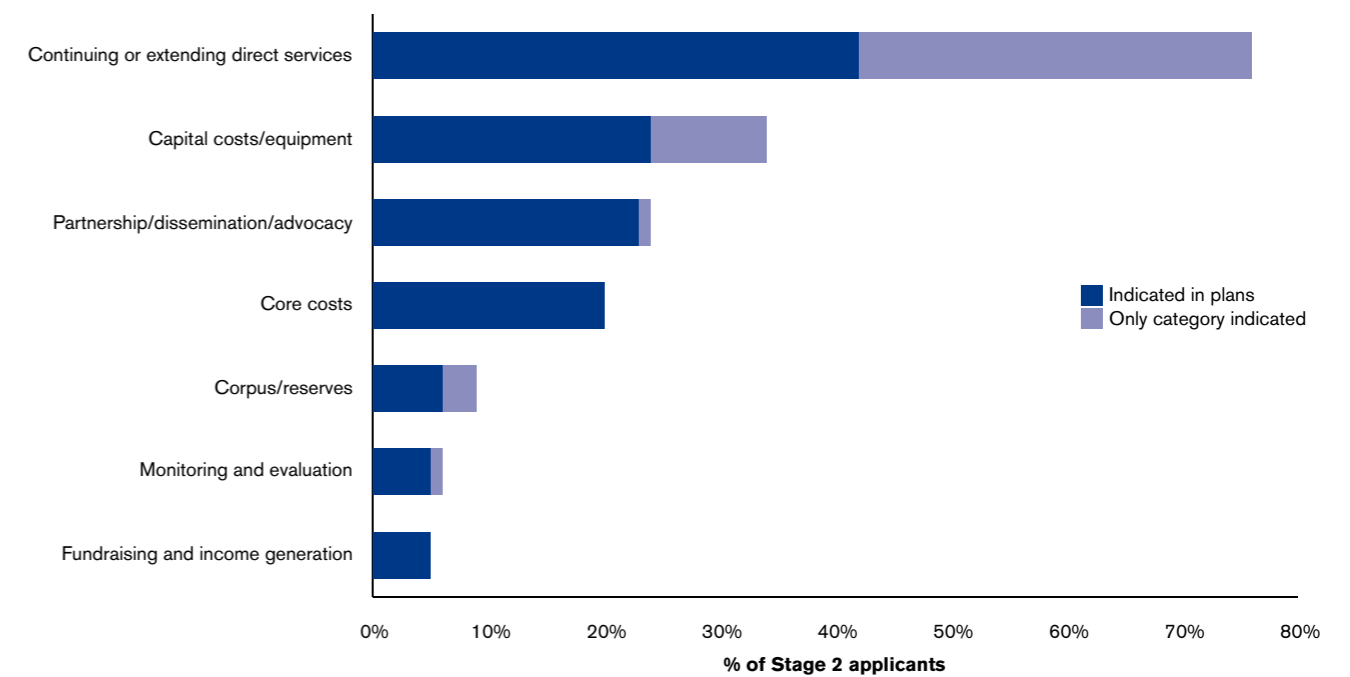
How STARS applicants propose to use \$100,000

As part of their Stage 2 application, STARS Impact Awards applicants were asked to describe how their organisation would spend the \$100,000 Award if they were to receive it. Some organisations proposed to spend the Award on a single outlay or project, but most wished to use it for several purposes. To give an example of the latter:

“We would utilise the funds over the coming two years via: increased infrastructure (IT, furniture, resource library, etc), human resources bolstering, office space, Corpus Fund building and project expenses. . . Because this spending will strengthen the core of the organisation. . . the benefits will extend to not only the 50+ team members, but the 1,000+ annual direct project participants and peers within the forums and networks.”

The 106 responses were categorised as shown in Chart 2 below. As mentioned above, many organisations’ plans spanned more than one category. The terms and conditions attached to the Impact Awards allow STARS to verify itself that the use of funds is charitable and consistent with its overall goal.

Chart 2: Plans for \$100,000 of unrestricted funding



Other grants are often restricted solely to the provision of direct services or for meeting specific capital costs. Many of STARS' applicants propose plans to use the Impact Award in such ways, and significant numbers propose to spend the funding in question only within these categories. However, the most important finding from this data is that grantees would like to do other things as well: meet their core costs, build reserves, invest in monitoring and evaluation, and strengthen their fundraising. Funders who systematically restrict funding to service delivery or capital spending prevent organisations from realising such plans, and therefore from becoming as effective as they could be.

The number of applicants wishing to use the unrestricted funding for continuing or extending direct services may indicate that these organisations are so used to having project funding that they do not have a clear idea of how they might spend money outside of their projects. It may also indicate the difficulty these organisations face in covering the central or core cost components of their projects; a few applicants have told STARS that they would use an Impact Award to achieve full cost recovery for existing work. During the application process, STARS frequently clarifies to surprised applicants that the foundation does not have preferences over the type of plans it receives, as long as there is a clear indication that children will benefit ultimately.

When applicants do propose using STARS' funding to extend services, this is often because of difficulties in fundraising for this type of work. An example is Island Hospice, a 2007 Award recipient based in Harare, Zimbabwe. Island Hospice used the STARS Impact Award to extend its Community Paediatric Clinics offering free non-antiretroviral medication and counselling to children infected with HIV/AIDS. Few funders were willing to support this work at the time, despite it being at the top of Island's agenda.

The following page provides further examples of applicants' plans by category.

Right: Salamoit and Fortuna, beneficiaries of food distribution programme, Mums for Mums Ethiopia, 2009 Award Recipient



Examples of plans for \$100,000 of unrestricted funding

Continuing or extending direct services

"[W]e are seeking an Award of \$100,000 to cover half of our annual budget."

"The funding would be spent on operational costs for 2010 and 2011 for two vehicles."

"We would use Award money to start and maintain two group foster homes, based on our current model, for three years. The remainder would be used to fund advocacy efforts and information-sharing."

Capital costs/equipment

"Classroom extensions in two schools... benefitting 550 children and 13 teachers through improved teaching and learning environment."

"To support our current major project: building an administration block and a hall... not only our children will benefit but the staff and the community as well."

"If we receive the Award from the STARS Foundation we will set up six primary eye care centres which will be equipped with a system of tele-ophthalmology."

Partnership/dissemination/advocacy

"The Award would initially be held in reserve to buffer funding deficit during the current economic downturn. Subject to maintained commitments from current funders the Award would then be dedicated for advocacy and dissemination nationally."

"We will provide opportunities to about 20 organisations wishing to develop a deafblind service to visit organisations working with deafblind people in order to learn about their needs and the requirements of setting up a service."

Central costs

"The Award would be used mainly to sustain the on-going services with priority on covering overheads... To minimise the impact of the impending crisis, the organisation plans to utilise the contribution of the Award for supporting staff remuneration and other overhead costs."

Corpus/reserves

"We would use this Award as the basis of an 'endowment fund', to ensure our financial sustainability and the continuation of our work... The interest alone would enable us to offer weekly music therapy sessions for one year to 171 children."

"The Award money would primarily be used to augment the corpus fund, which in turn would ensure sustainability of capacity building programmes."

Monitoring and evaluation

"Funds received will be used to enhance programmatic and administrative functions to meet the increasing demand for family HIV services... More than 25,000 people per year will benefit from these upgrades, expansion of services, enhancement of resources, improvements in data management and quality assurance."

"We would like to spend the grant on activities to find creative ways to increase and expand our reach and make our learning, programmes and processes more easily accessible to those working with children affected by death and loss."

Fundraising and income generation

"Recruitment and initial salaries for fundraiser and information technology worker."

"[Half of the money, \$50,000] would allow us to finance the post of Partnership Manager over two years... to find new sponsors, to strengthen existing partnerships and to communicate the value of our work."



Case study: Island Hospice

Island Hospice became the first recipient of the STARS Impact Award in the Health category in 2007. In recognition of its excellence in the provision of services to children, the organisation received US\$100,000 in unrestricted funding as well as consultancy support.

Founded in 1979, Island Hospice was the first organisation in Africa to provide palliative care and support to people with terminal illness, their families and carers, and to offer a comprehensive therapeutic service for the bereaved. Island Hospice has responded to increasing numbers of child carers in Zimbabwe, where it is based, by working with children individually and in groups to meet both their emotional needs and their need for practical skills.

The STARS Impact Award has provided Island Hospice with the resources to expand into three new paediatric clinics and offer non-antiretroviral medication and counselling to over 400 new children. It is also delivering important long-term benefits by increasing the organisation's responsiveness, raising its profile, stimulating collaboration and attracting additional donors.

STARS has continued to work closely with Island Hospice and has supported the organisation in securing a permanent place on GlobalGiving, which provides an online platform for fundraising globally from individual donors. In the current financial climate, and particularly in the Zimbabwean context, opportunities to secure additional funding are highly valued.

"The STARS assessment in choosing the Award recipients is comprehensive and its commitment to organisations receiving the Awards is remarkable – this is not a donor organisation, but a true partner."
Val Maasdorp, Island Hospice

4. STARS' approach to unrestricted funding

The application and selection process for the STARS Impact Awards, the STARS Process, is designed to address the challenges of providing unrestricted funding outlined in Section 1. These features include:

- Strict eligibility criteria
- Rigorous assessment
- Responsiveness and openness
- Additional capacity support and non-financial benefits
- Extensive monitoring

Strict eligibility criteria

STARS uses strict eligibility criteria to ensure that its mission is aligned with those of its Award recipients. These criteria are clearly set out on the foundation's website. Applicants must be registered non-profits and must work directly or indirectly with children in one or more of the areas of Health, Education or Protection.

Applicants must be based in countries that are both in the Award regions and in the bottom 100 of the Under-Five Mortality rankings from UNICEF's State of the World's Children Report 2009.¹⁵ Furthermore, they must have an annual income of between \$100,000 and \$2million (for the 2010 Impact Awards; previously \$5million). This criterion makes it more likely that recipients will be able to absorb the Award, but also means that the Awards will have a significant impact on the recipients' work. The Award funding can, however, be spread across several years if recipients request it.

Further eligibility criteria focus on applicants' independence and financial situation. STARS is keen to support autonomous NGOs that control their own strategy and resource allocation. This is important to the foundation since a key argument in favour of unrestricted funding is that it frees grantees to address local concerns as they see fit.

Rigorous assessment

The Impact Awards application process provides STARS with extensive information about applicants, which it then uses to make holistic judgements about these organisations, not just their projects or programmes. Recipients are selected against a range of criteria which reflect the hallmarks of effective practice and demonstrate a positive impact on the lives of the children supported. This gives the foundation confidence that eventual Award recipients will make good use of the funding provided. Good guidance for applications also matters, as some NGOs are unused to applying for unrestricted funding, and require guidance to write an application that properly reflects their work.

Once an organisation's eligibility for the Awards has been established, it can then complete the Stage 1 application form. STARS previously operated with a single application form, but in response to feedback from applicants the organisation decided to split this in two in order to reduce the burden on unsuccessful applicants.

STARS' Stage 1 application form has three sections. These focus on:

- Eligibility for the Impact Awards (registered locally as a non-profit organisation; working in children's Health, Education, or Protection; in defined income range, etc)
- Organisation details (contact details, number of staff, main donors, etc)
- Delivery and Impact of programmes that positively affect the lives of disadvantaged children

The foundation compiles a shortlist of up to 40 applications per region across the three categories. These organisations are then sent the Stage 2 application form and invited to apply.

At Stage 2, STARS asks a number of questions to enable it to apply the following criteria:

- Governance and accountability to stakeholders
- Effective finance and administration
- Use of technology to enhance delivery of programmes
- Innovation and flexibility
- Networking and collaborating with other organisations
- Development of staff members and/or volunteers
- Inclusion and access

Applicants are also asked what they plan to do with the funding should they be selected to receive an Award. Application materials make it clear that applicants must remain mindful of the fact that the foundation is obliged under English charity law to take reasonable steps to ensure that any funds (and any interest earned on these) received as part of an Impact Award are used for charitable purposes.

STARS reviews Stage 2 applications to compile a second shortlist. For each region, an Independent Awards Panel composed of volunteers with a broad range of experience in business, finance, the voluntary sector, or in working with children, reviews shortlisted applications. It then makes recommendations to the Trustees of STARS, who make the final decision on Award recipients following site visits by STARS Programme Officers. One organisation told STARS that the questions asked during site visits were so challenging and helpful that they regarded this part of the process as free consultancy support.

The rigour of the application process has benefits beyond the selection of effective organisations. It turns the Impact Awards into marks of validation for an external audience. This can be useful for staff morale. As one Award recipient put it:

"The Award itself truly encouraged the staff that the path they were on, despite the immense challenges, had been recognised. Also the Award being 'unrestricted' illustrated STARS' confidence that Island understood its context best, and knew better what the needs are."

Award recipients have also reported that they have been able to attract other funders' support through being Award recipients, and that their standing with government has improved.

"The Award has enabled SPW Tanzania to secure a major strategic partner, with multiyear funding."

"The impact of the Award has been very positive in terms of networking at government level; it has given SPWTZ more credibility with government ministries, due to the recognition for impact."

Responsiveness and openness

STARS also prioritises building frank relationships with applicants and eventual Award recipients. This is difficult. If applicants are used to applying for restricted funding, it can take both time and effort to encourage them to move beyond describing specific projects to conveying the strengths, but also the weaknesses, of their organisations as a whole, and the challenges they face.

STARS provides feedback to all applicants. The level of feedback depends on the level of information provided, so the comments made after site visits will be more detailed than those for organisations rejected at Stage 1. This feedback can help applicants write stronger applications in future rounds of the Awards. Together with the application and selection process, it also provides a self-assessment opportunity even for applicants who are not ultimately successful. Several organisations have communicated to STARS that they have used feedback from their Impact Awards application to inform their internal development work, as they think it effectively highlights areas where they need to improve.

STARS also solicits feedback. The foundation captures, analyses and acts on applicants' opinions on its application process and ideas on how it can be more helpful to them in the future. The foundation considers the interests of applicants whenever possible, which means that decisions around application processes, for instance, are made taking into account applicants' convenience and the demands of the selection process, as opposed to focusing on the time spent by foundation staff.

The importance of openness does not end with the application process. Like many funders, STARS seeks to build close relationships with eventual Award recipients. Its ability to do so is strengthened by the commitment of resources to site visits during the selection process and by the opportunity to spend time with recipients around the Award ceremony. The foundation learns from Award recipients, who exchange ideas not just with the foundation but with each other. A close relationship also makes it easier to evaluate the impact of an Award, and lowers the barriers for an organisation to get in touch early on if it needs to change its spending plans.

STARS is continuously looking for ways to improve its feedback mechanisms to provide as much benefit as possible to those organisations it does not fund.

Additional capacity support and non-financial benefits

In addition to the \$100,000 grants, STARS makes funding available for capacity support for Award recipients. This recognises the fact that the effective use of funding sometimes requires improvements in capacity. Even the strongest applicants and indeed Award recipients have typically had use for this kind of assistance. It is up to recipients to choose the type of support that is most appropriate for their needs.

The Impact Awards also come with non-financial benefits. Publicity is the most obvious. In the words of one recipient:

“The STARS Award has provided RAPCAN with a number of public relations opportunities, thus increasing the public profile of the organisation.”

STARS also offers Award recipients comprehensive media training in preparation for the media interviews the foundation sets up, extensive networking opportunities and a range of useful materials, including high-quality photographs and brochures which they can use for their own marketing, B-roll footage and a short edited film of their organisation's work. STARS' calculation of the value of the media coverage generated by the Awards in the first two years across a number of mediums (online, print, radio and TV) is just under \$2.5million.

Extensive monitoring

As discussed in Section 1, many funders restrict grants because they find it harder to monitor the impact of unrestricted funding. STARS has dealt with this by creating a framework specifically for capturing impacts across an entire organisation which it tailors to individual Award recipients. This framework covers not only tangible outcomes from service delivery but also areas such as advocacy and partnerships.

STARS collects monitoring data twice in the first year of an Award and then annually for a minimum of four years. It expects that this will enable it to understand the long-term impact an Award has on an organisation. The monitoring framework focuses on impact at three levels: the organisation itself, the children it works to help and the community in which it works.

Some of the areas covered by STARS' monitoring form include:

- Staff and HR
- Media and Communications
- Networking
- Sustainability
- Community involvement
- Activity impact
- Advocacy for beneficiaries
- Additional funding

Right:
Check-up at Kashi
Mobile Clinic,
Child Welfare
Scheme Nepal,
2009 Award
Recipient



Case study: Students Partnership Worldwide (SPW) Tanzania

SPW Tanzania has been working on issues relating to sexual reproductive health of young Tanzanians since 1992. The organisation is widely recognised as a national authority in its field, and in 2007 became the first recipient of the STARS Impact Award in the Education category.

In Tanzania as in many other places it is the young who are most likely to suffer from poverty and most at risk from HIV/AIDS and other sexually transmitted diseases. SPW Tanzania is an expert in the use of young peer educators, treating young people as part of the solution rather than the problem. Its youth-led volunteer model enables it to deliver full-time holistic sexual reproductive health programmes in the most remote rural communities. Moreover, its programmes are developed, assessed and continually refined based on broad consultation with tens of thousands of rural youth, key adults within their communities, partner NGOs and government ministry partners.

The STARS Impact Award has helped SPW Tanzania expand this programme across the entire Southern Highlands Zone, into the Mbeya, Ruvuma, and Rykwa regions, to reach 20,000 additional people. It has meant that more attention and additional funding can be directed to the development of a comprehensive sustainability strategy.

The consultancy support provided by STARS is also helping SPW Tanzania make the most of its human resources. It is improving staff retention through paying greater attention to career progression opportunities and is also mobilising the huge advocacy potential of its network of ex-volunteers.

"We have noted an impact in terms of attracting potential partners as a result of the Award... We have used the Award in all our strategic and publicity documents and presentations, this has given us a high level of credibility."

Lulu Ngwanakilala, SPW Tanzania

5. Next steps

This report has explored the case for unrestricted funding and what the STARS Foundation has learned from three years of Impact Awards. It has included insights drawn from front-line NGOs working to serve their communities with whatever funding they can get.

The report has explored both the reasons why funders tend to restrict the funding they give and the main arguments in favour of unrestricted income, using examples from STARS Impact Awards applicants for illustration. It has also explored the challenges faced by NGOs and what they would do with unrestricted funding if they received it. Finally, the report has outlined STARS' approach to funding, the STARS Process, and highlighted the ways in which it helps the foundation provide unrestricted funding in an effective way.

Funders should think carefully about their reasons for giving restricted income and what can be done to address their concerns. STARS' approach provides an example of how funders can put mechanisms in place to help manage some of the challenges and risks involved in offering unrestricted funding.

For the STARS Foundation, unrestricted funding is an important tool that can contribute to redefining the donor-recipient relationship. STARS believes that finding ways for local NGOs to control their own strategic direction and respond to local needs is one of the most pressing concerns in international philanthropy and development aid.

This report is an initial step towards the STARS Foundation's aim of encouraging the replication of effective approaches among both front-line NGOs and funders. STARS will continue to collect data and information through its Impact Awards, to deepen the overall knowledge base concerning funding options.

STARS also hopes that other funders will be encouraged to share their own experiences and contribute to this field. The foundation intends to conduct further research on funding effectiveness. STARS is also now inviting like-minded organisations to engage in practical collaboration to deliver more Impact Awards through co-funding and on-the-ground partnerships. Ultimately this will benefit the people who need it most, the communities, adults and children that NGOs work to help.

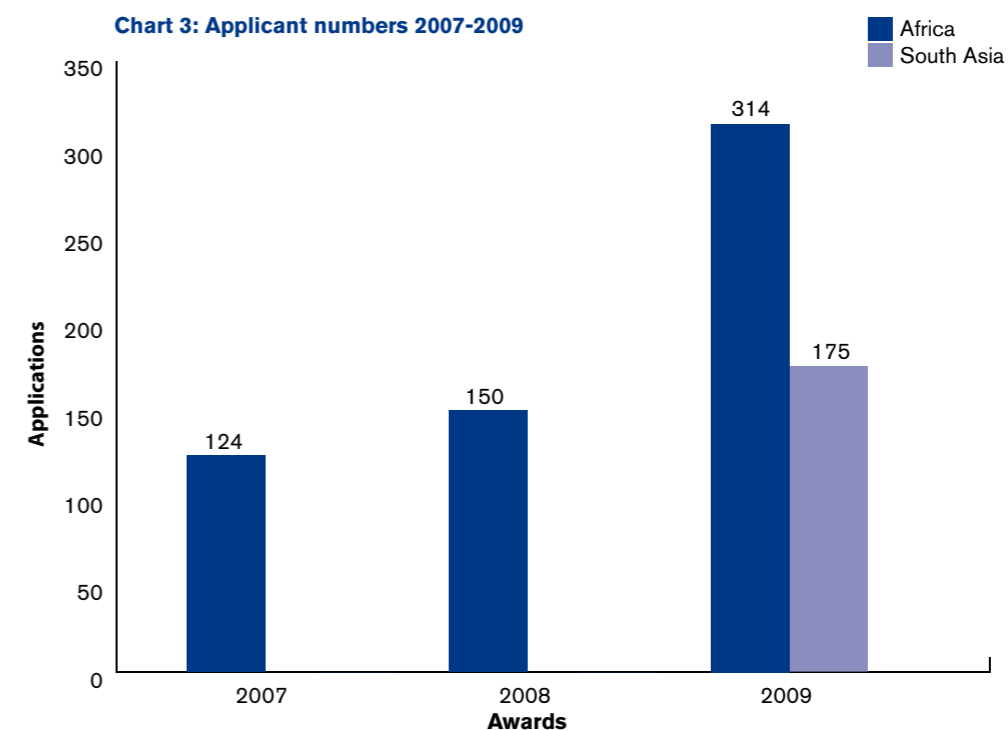
Right:
Life skills training
session, SAFE
Kenya, 2009
Rising Star Award
Recipient



Appendix 1: The STARS Impact Awards applicant pool

A1.1 Applicant numbers

There were 489 applicants for the 2009 STARS Impact Awards. Nearly two thirds of applications were from Africa (314 of which 219 eligible). Though 2009 was the first year STARS offered Awards in South Asia, it received more applications from this region (175, of which 143 eligible) than it had from Africa in either of the first two years of the Awards there, as shown in the chart below. The 2007 and 2008 Africa-only Awards had 98 eligible applicants in each year, which means that the proportion of eligible applications fell from 79% in 2007 to 65% in 2008. In 2009 it rose back up to 74%, and was even higher for South Asia (82%).

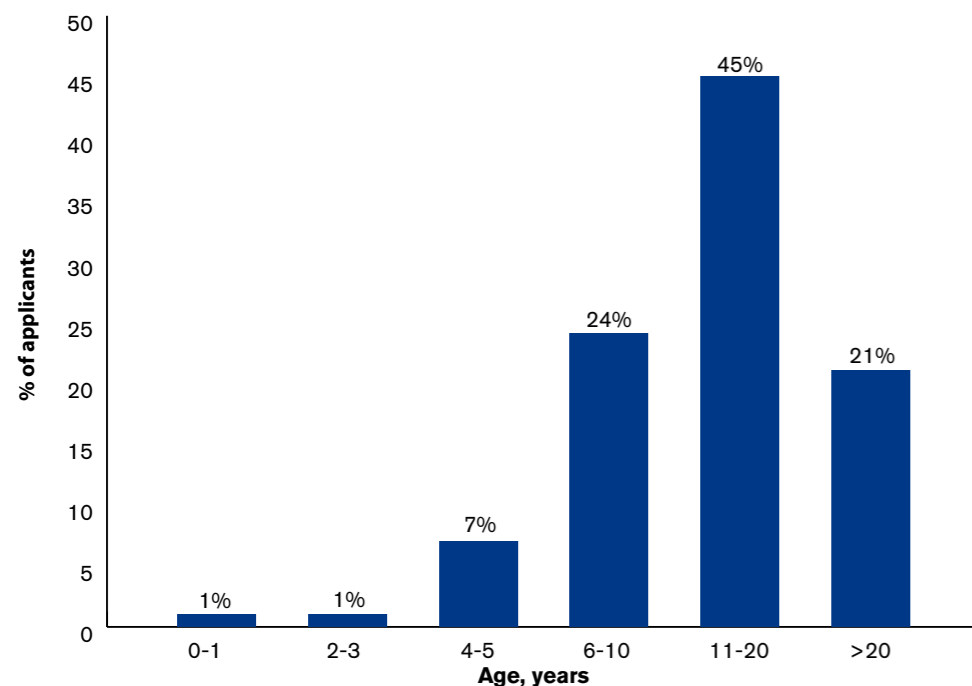


A1.2 Age distribution of applicants

The Stage 1 application includes the question 'How long has your organisation been established?' Usable responses to this question were provided by 347 of the 362 eligible applicants.

Only a small number of recently established organisations applied for the 2009 Impact Awards: two thirds of applicants had been in existence for over a decade. The average age of applicant organisations was 14.6 years. The youngest organisation had been established in the year in which it applied (2008) and the oldest one in 1909. The age distribution is shown in the chart below.

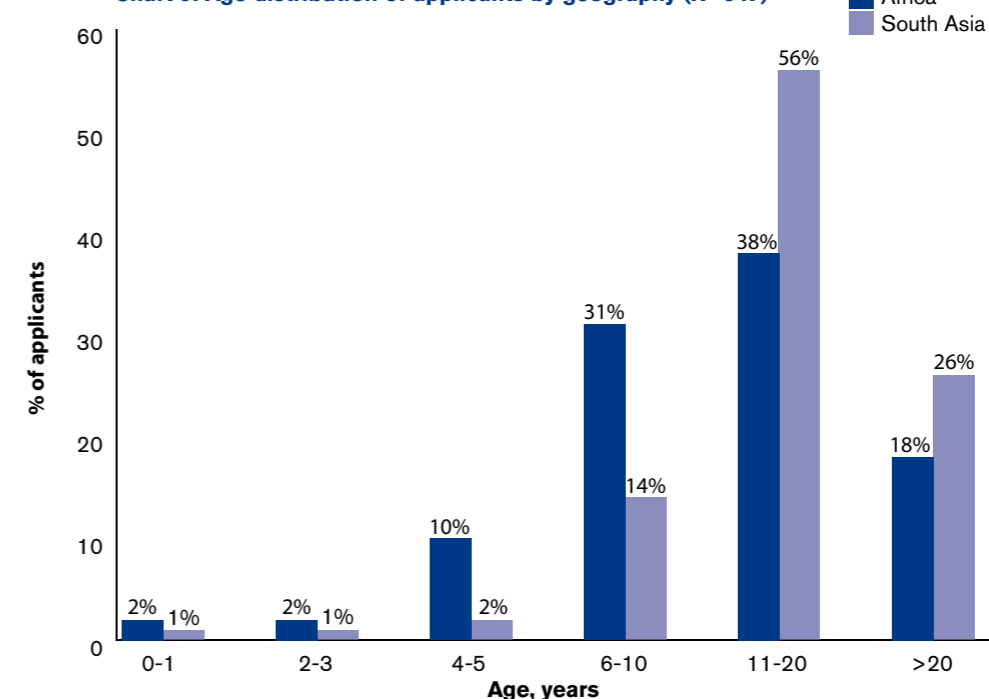
Chart 4: Age distribution of applicant organisations (N=347)



Since documentation of charitable registration is required in the application, it is unlikely that these figures are inflated by organisations attempting to bolster their respectability by claiming to be older than they in fact are.

Applicant organisations from South Asia are on average older than those from Africa. The average age of South Asian and African applicant organisations was 16.4 years and 13.5 years respectively. This is driven by the large share of South Asian organisations over ten years old, as Chart 5 below shows.

Chart 5: Age distribution of applicants by geography (N=347)

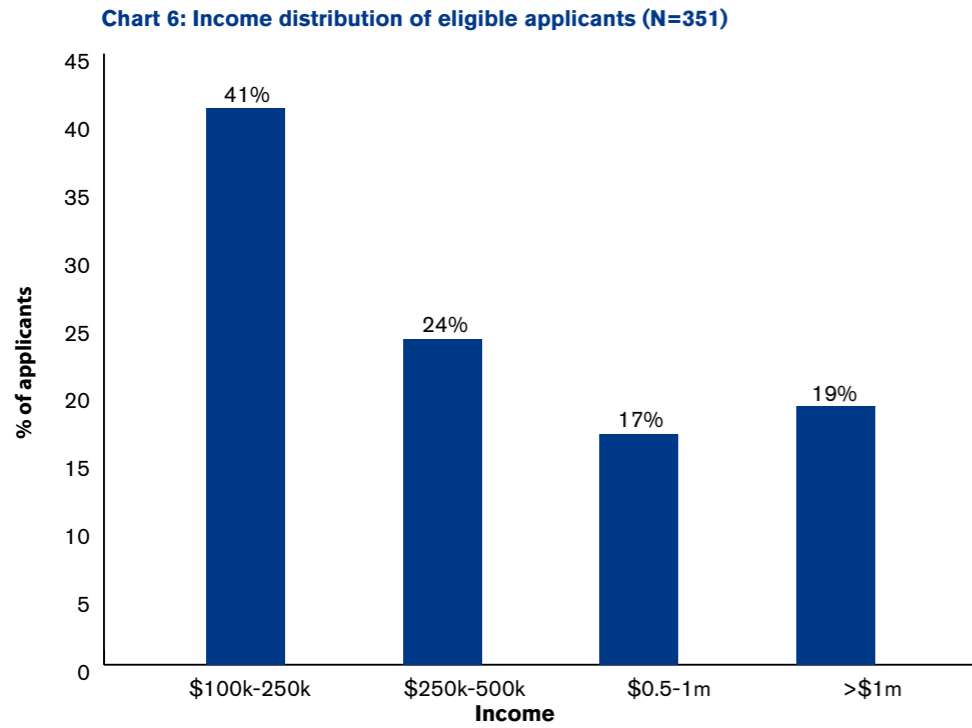


A1.3 Income distribution of applicants

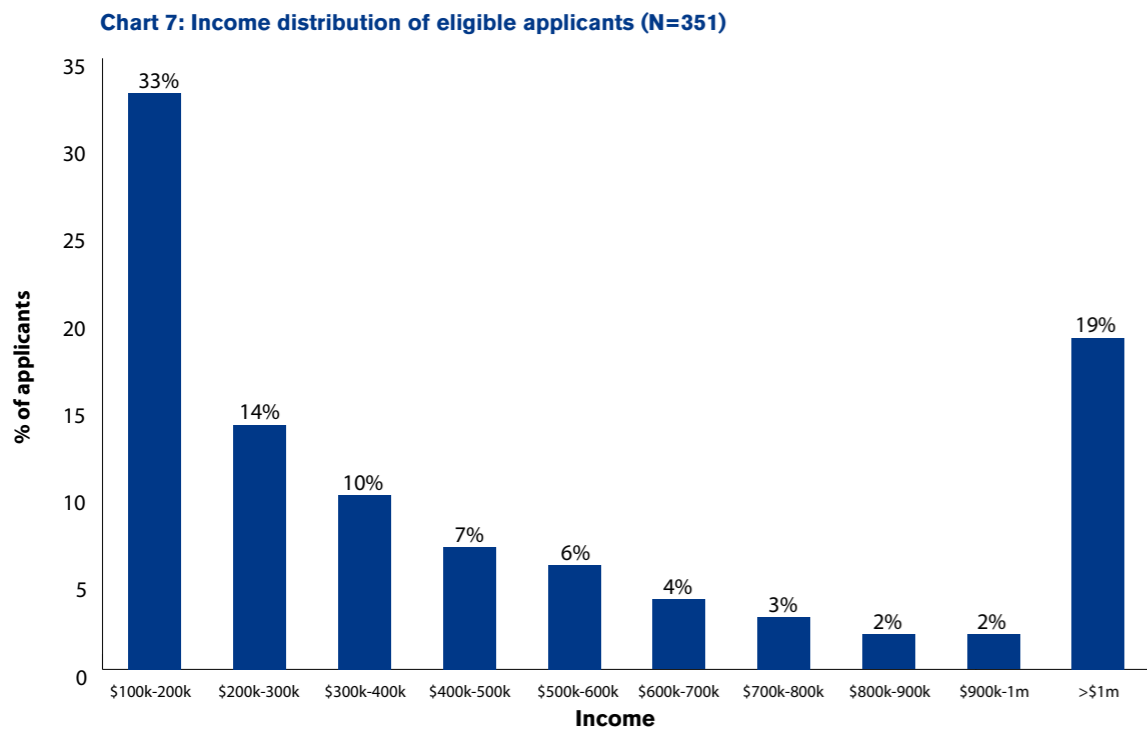
The Stage 1 application asks organisations for their income in the last completed financial year both in US\$ and local currency. Usable income figures were received from 351 of the 362 eligible organisations, and ranged from the lower eligibility limit of \$100,000, which, perhaps suspiciously, was the exact level of income quoted by 11 organisations, to the equally round \$4million for two organisations, far below the upper eligibility limit of \$5million (lowered to \$2million for the 2010 Impact Awards). For two thirds of the eligible applicants, a STARS Impact Award is equal to a fifth or more of their annual income, so becoming an Award recipient would have a significant impact on the organisation's finances.

Applicant organisations that had been in existence for ten years or less had an average income of \$419,000, while organisations older than ten years had an average income of almost twice as much, \$807,000. However, there was no evidence of a linear relationship between the age and income of organisations.

Chart 6 below shows the income distribution across these 351 applicants.

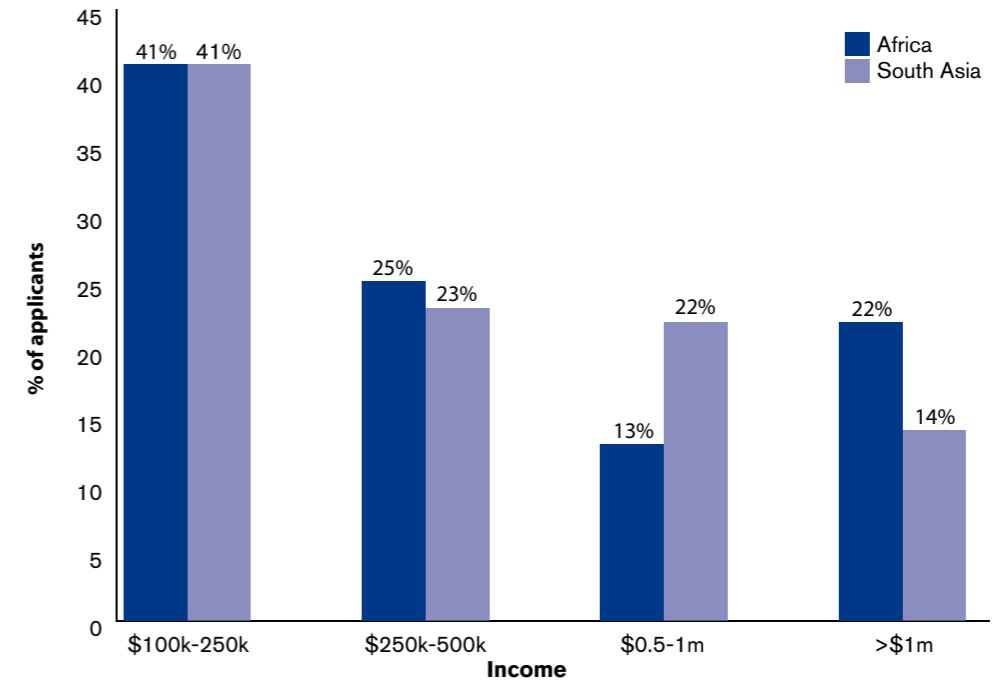


The average income of eligible applicants is \$641,000, but this number is clearly driven to a large extent by the 66 organisations with income in excess of \$1 million, as can be seen in Chart 7, which shows the income distribution with greater granularity.



The average income of organisations applying from African countries is higher than that of organisations from South Asia (\$680,000 vs. \$583,000), which is due to the fact that 47 of the 66 \$1 million+ organisations are from Africa, as can be seen in Chart 8 on the following page.

Chart 8: Income distribution of eligible applicants by geography (N=351)



Right: Deepak working with Sheetal, Sense International India, 2009 Award Recipient



Appendix 2: Challenges faced by applicants

Lack of funding

“The biggest problem we face is the lack of enough funds.”

Lack of capacity

“Lack of knowledge and skills on project management and financial management.”

“Turnover of qualified staff due to low remuneration offered by local NGOs compared to government posts or posts available in international/multinational NGOs.”

“Capacity gaps. The conflict has meant that many capable and qualified people have left the country. This combined with the lack of investment in basic infrastructure over the course of the conflict means gaps exist at all levels within communities, government departments and organisations.”

Legislation or government attitudes hostile to NGOs

“Vested interests within government which hinder NGO programme implementation.”

“NGOs are not much supported by government servants, they look on them as problems/competitors for donors’ resources instead of [being] supportive to facilitate delivery of services to society.”

Challenges in the external operating environment

- “Poor road network
- Late release of funds
- Inadequate funding
- High inflationary rate”

“The current militancy not only restricts mobility, especially of the female staff, but it also threatens our very existence. Next to this is the illiteracy and disinterest of the community in education, especially female education. Third is political instability, leading to absence/weak policies and their implementation”

Challenging funding practices

“Reduction in proposed budgets by donors, contributing to the collapse of some projects, and late release of funds by donors.”

“Core funding is critical and almost never available.”

“Scarcity of resources, in most cases due to having only one source of income or one major donor covering all general costs... to make matters worse, even these scarce resources are restricted by donors by the number of strings attached.”

Lack of sustainability of projects

“[A major challenge is] Sustainability of the organisations, as core funding is critical and almost not available; most projects end with the organisations.”

“In terms of our capacity, the sustainability of the projects is the biggest challenge, because whenever a project [becomes established], that causes funding to end, and then the project definitely moves backwards day by day.”

Lack of sector coordination or excessive competition

“Many organisations have poor networks and avoid collaboration due to unfounded fears of competition, which has led to duplication of activities and projects/programmes. This is very common since there is no strong umbrella or body that can guide NGOs and their functions.”

“There is duplication of services with little information sharing and networking among like-minded NGOs. Many resources would be saved with avoidance of duplication and open sharing of information to maximise impacts.”

Lack of capacity or funding for monitoring and evaluation

“There is a skills shortage in the organisation, for instance in performance management (especially with respect to tracking the impact of the interventions carried out).”

Corruption

“The vicious circle of poverty which is a product of low incomes, low capital accumulation and low savings results in persistent dishonesty in project implementers and corruption whenever resources are found.”

Right:
Robin carrying
a healing card,
RAPCAN South
Africa, 2007
Award Recipient



Notes

1. UNICEF (2009) *State of the World's Children Report 2009: Maternal and Child Health*.
2. Brick, P., Kail, A., Jarvinen, J. and Fiennes, T. (2009) *Granting success: Lessons from funders and charities*. New Philanthropy Capital.
3. Institute for Philanthropy (2009) *Supportive to the Core: Why unrestricted funding matters*.
4. Brookes, M., Langerman, C., and Lumley, T. (2005) *Funding success: NPC's approach to analysing charities*. New Philanthropy Capital.
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Photography on front cover, from left to right, top to bottom:

Amani on the streets of Moshi at night, Mkombozi Tanzania, 2008 Award Recipient

Children in Pumwani lining up to wash their hands, SIDAREC Kenya, 2008 Award Recipient

Abdulaziz, patient of Disability Action Network Somaliland, 2008 Award Recipient

Akhil working with Meena, Sense International India, 2009 Award Recipient

Cultural troop girls dancing at Zuarangu School, built with support from Afrikids Ghana, 2009 Award Recipient

Child doing his homework at Jyoti Street Project, CWS Nepal, 2009 Award Recipient

Beneficiary family of food distribution programme, Mums for Mums Ethiopia, 2009 Award Recipient

Children from Rabai village running to see a theatre performance by SAFE Kenya, 2009 Rising Star Award Recipient

Children sleeping at Kamatipura Centre, Prerana India, 2009 Award Recipient

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